

VZCZCXRO5935
RR RUEHCN RUEHGH RUEHVC
DE RUEHGZ #2265 3170829
ZNR UUUUU ZZH
R 130829Z NOV 06
FM AMCONSUL GUANGZHOU
TO RUEHC/SECSTATE WASHDC 5435
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUCPDOG/USDOC WASHDC
RUEAIIA/CIA WASHDC
RUEKJCS/DIA WASHDC
RHHMUNA/HQ USPACOM HONOLULU HI

UNCLAS GUANGZHOU 032265

SIPDIS

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EINV](#) [KPAO](#) [CH](#)

SUBJECT: Enron Prosecutors Share Lessons Learned with Guangdong Audiences

¶1. (U) SUMMARY AND COMMENT: In two days of meetings and roundtables with Guangdong officials, legal experts, students, and media, Department of Justice prosecutors John Hueston and Robb Addison discussed their involvement in the Enron case and highlighted the differences between the U.S. and Chinese judicial systems. Their interlocutors were particularly interested in such issues as evidence collection, intra-agency cooperation, and victim compensation, noting that the lessons of Enron are relevant in China's current economic and legal environment. END SUMMARY AND COMMENT.

¶2. (U) Hueston and Addison visited Guangzhou as part of a PAS-sponsored China-wide visit. In Guangzhou, they met with the Guangzhou and Guangdong bar associations, Guangdong Procuratorate, Guangdong office of the China Banking and Regulatory Commission (CBRC), local reporters, and Zhongshan University law and business students. In addition, the Consul General hosted a dinner at his residence that included five prominent local lawyers and a judge from the Foshan Intermediate People's Court. The judge, Lai Zining, is currently presiding over a case of alleged earnings misstatements and corruption by a large Foshan-based firm named Kelong.

HOW TO SPOT THE WARNING SIGNS

¶3. (U) In their presentations, Hueston and Addison described how some of Enron's leaders misled investors and profited from stock sales. They highlighted the warning signs that should have alerted analysts and regulators that Enron was on weak financial footing, including a vague and unproven business model, sudden earnings prior to quarterly statements, and the unexpected resignation of the CEO. They noted that new legislation -- the Sarbanes-Oxley Act -- has strengthened financial reporting requirements and increased funding for regulatory agencies.

REGULATORS AND PROSECUTORS INTERESTED IN U.S. SYSTEM

¶4. (U) Officials from the Guangdong CBRC peppered Hueston and Addison with questions about the complicity of banks in Enron's illegal activities and what kinds of techniques they used for evidence collection. Officials were also interested in the civil cases brought by ex-Enron employees and the criminal sentences for those Enron leaders found guilty. Chinese prosecutors from the Guangdong Procuratorate asked how the various U.S. investigative agencies, including the police, FBI, and Security and Exchange Commission (SEC), coordinated with DOJ. They asked for information on such aspects of U.S. law as the Fifth Amendment, plea bargains, and grand juries.

STUDENTS TURN OUT IN FORCE

15. (U) Between two hundred and three hundred students from Zhongshan University's schools of law and business showed up for a lively evening presentation with the prosecutors. The students focused on the effect of the Enron case on U.S. policy and asked about restitution for foreign investors of U.S. companies. Hueston and Addison said they were proud to have been part of this landmark case, and encouraged the students to pursue careers that benefit China.

GOLDBERG